

Annexure-A

FAQS – Settlement of Running Account of Client’s Funds

1. When does a client account need to be settled?

As per SEBI circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009 and SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016, the settlement of funds and / or securities shall be done within 1 working day of the pay-out, unless client specifically authorizes the trading member in writing to maintain a running account.

Vide SEBI circular no. CIR/HO/MIRSD/DOP/CIR/P/2019/75 dated June 20, 2019, running account for securities has been discontinued and therefore, SEBI circulars dated December 03, 2009, and September 26, 2016, are now applicable for settlement of running account of client’s “funds” only.

The settlement of running account of funds of the client shall be done by the trading member after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchanges, at least once within a gap of maximum 30 / 90 days between two settlements of running account as per the preference of the client.

2. What should be the periodicity for settlement of client funds ?

In case a client wishes to maintain a running account for its funds with the trading member, the client has to authorize the member in writing to retain its funds. Such authorization should also contain:

- Mandate of the client as to whether the settlement of funds should be done within a gap of 30 / 90 days between two settlements of running account
- A clause stating that the Client may revoke the authorization at any time (i.e. without notice)

Running account authorisation received through online secured access by way of client specific user id & password or through a registered email id of client is considered as authorisation in writing.

Accordingly, the actual settlement of funds shall be done by the member at least once within a gap of maximum 30 / 90 days between two settlements of running account as per the preference of the client.

Further, as per SEBI Circular SEBI/HO/MIRSD/DOP/P/CIR/2021/577 dated June 16, 2021, for the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by trading member, within next three working days irrespective of the date when the running account was previously settled.

Note: Only in cases where the client accounts are settled completely (without any retention) by making actual payment into client's bank account and the client neither brings in fresh funds nor executes any transaction thereafter for a period of more than 30 days from such settlement date, then the subsequent settlement cycle of 30/90 days may start from the day the trading member receives fresh funds from the client instead of previous settlement date.

For example, a member settles the running account of a client on 10-Aug-21 by making actual payment of the entire credit balance into the client's bank account, resulting in a "Zero" ledger balance at the end of the day. In such cases, if the client returns to the member on 25-Sep-21 (after a gap of more than 30 days from the previous settlement date) with fresh funds and no trades are executed during this period, then members may compute the 30/90 days for subsequent settlement from the day the member receives funds, i.e., 25-Sep-21, instead of the previous settlement date, i.e., 10-Aug-21.

3. If the client has not done any Exchange transaction in the last 30 calendar days but has an open position in derivatives segment, still the credit balance should be returned to client within next three working days?

If the client has an open position in the derivatives segment, then the date of contract expiry or the date on which position is closed may be treated as last transaction date, for the purpose of computing 30 calendar days for returning the credit balance to such clients. However, members shall ensure settlement of running account of funds at least once within a gap of 30/90 days between two settlements of running account as per the preference of the client.

Illustration (For client accounts having credit balance and open position in derivatives segment)

| Settlement preference given by client | Last settlement date | Last trade date | Position closure date | Contract Expiry date | Next settlement due date |
|---------------------------------------|----------------------|-----------------|-----------------------|----------------------|--------------------------|
| 90 days | 30-Jul-21 | 10-Aug-21 | 18-Aug-21 | NA | 17-Sep-21 |
| 90 days | 30-Jul-21 | 10-Aug-21 | NA | 26-Aug-21 | 25-Sep-21 |
| 30 days | 30-Jul-21 | 10-Aug-21 | 18-Aug-21 | NA | 29-Aug-21 |
| 30 days | 30-Jul-21 | 10-Aug-21 | NA | 26-Aug-21 | 29-Aug-21 |

4. What if the client has not done any Exchange transaction in the last 30 calendar days, but executes transaction within next three working days?

If the client executes a transaction on the Exchange on or before the date on which member is scheduled (within three working days) to return the credit balance, in that case, the member may retain the funds as clarified in Point 5 and settle the balance amount to client.

5. What is the value of funds that a trading member can retain while doing the settlement?

For the clients having outstanding obligations on the day on which settlement of running account of funds is scheduled, the following funds may be retained by a member at the time of settlement.

- Entire pay-in obligation of funds outstanding at the end of day on date of settlement, across all segments
- Margin liability as on the date of settlement of running account, in all segments and additional margins (maximum up to 125% of total margin liability on the day of settlement). The margin liability shall include the end of the day margin requirement excluding the margin on consolidated crystallized obligation/ MTM; therefore, the trading member may retain 225% of the total margin liability in all the segments across exchanges

- The margin liability may also include the margin collected by the Member from their clients as per the risk management policy and informed to the clients.

An indicative format of retention statement is attached as **Annexure 1**. In case of any other format, members should ensure that the contents specified by the relevant circulars are covered in the retention statement.

Note:

- a) Trading Member will first adjust the value of securities (after applying appropriate haircut) accepted as collateral from the clients by way of 'margin pledge' created in the Depository system for the purpose of margin and value of commodities (after applying appropriate haircut) respectively as per the applicable provisions/ guidelines of margin collection and thereafter trading member shall adjust the client funds.
- b) While computing the value of securities, the closing rate for the trade date prior to the settlement date (T-1 day) should be considered after appropriate hair-cut viz. VaR margin rate applicable for the security in the Capital Market segment
- c) In case the member applies haircut more than VaR rate on a regular basis and the actual margin is collected and exposure is provided accordingly, then such higher rate may be considered for determining the amount to be retained, provided the member has intimated the requirement of additional margins to the clients through the policy and procedures document and consistently through the daily margin statements issued to clients.
- d) No inter client adjustment/ passing of Journal Entries can be done/ considered for the purpose of settling client accounts.
- e) Obtaining of authorization from the clients to the effect that no settlement need be done for running accounts is contradictory to the SEBI requirement and hence not permissible.

6. Whether the securities re-pledged to Clearing Member need to be unpledged while doing the settlement?

Excess securities (in the form of margin pledge/re-pledge) with Trading Member (TM), Clearing Member (CM) or with Clearing Corporation (CC), after adjustment of the 225% of the margin liability need not be unpledged

for the purpose of periodic settlement.

7. Whether the securities received by Trading Member as collateral from the clients by way of 'margin pledge', which in turn was not re-pledged with CM/CC, be adjusted towards margin liability while doing the settlement?

Yes. Value of securities (after applying appropriate haircut) accepted by trading member as collateral from the clients by way of 'margin pledge', shall be adjusted/ considered towards margin liability while doing the settlement of accounts, even if the same is not re-pledged with CM/CC.

8. Can Members issue payments through physical mode, while settling the accounts of the clients?

For the purpose of settlement of funds, the mode of transfer of funds shall be by way of electronic funds transfer viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.

Members may issue a physical payment instrument (cheque or demand draft), only in cases where electronic payment instructions have failed or have been rejected by the bank and after keeping adequate record of the same. In such cases, the date of debit of funds in members bank account towards clearance of said physical instrument shall be considered as settlement date and not the date of issue of physical instrument.

Further, in case of failure of electronic payment instructions due to incorrect bank account details, members shall obtain correct bank details from clients and update their records after keeping adequate audit trail.

9. Is there any threshold amount below which members may not be required to settle client's account?

No. Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients) is not permitted.

10. When should a member send statement of accounts for funds / securities?

As clarified vide Exchange circular 20210205-30 dated February 05, 2021, every member shall send a complete 'Statement of Accounts' for funds,

securities and commodities in respect of each of its clients on weekly basis. Members have to send the 'Statement of Accounts' on or before the next four trading days of subsequent week.

Further all members will continue to send 'statement of accounts' containing an extract from the client ledger for funds, an extract from the register of securities/commodities displaying all receipts and deliveries of securities/commodities and a statement explaining the retention of funds/commodities within 5 days from the date of settlement.

Notwithstanding anything contained above, Member shall issue the statement of accounts for funds, securities and commodities for such period as may be requested by the client from time to time.

The statement of accounts may be sent in hard or in soft form as per the consent obtained from the client and POD / dispatch register / logs of email sent should be retained by the member.

Members may refer Exchange circular 20210205-30 dated February 05, 2021, for the format of the statement of accounts for funds and securities/commodities.

11. Is statement of account required to be issued in case no trades are done by the clients?

The members shall not be required to send the 'Statement of Accounts' to clients with zero funds, zero securities and zero commodities balances and also has been flagged as 'Inactive' (i.e., if no trades are carried out by the client in the last 12 months across all Exchanges) in the UCC database of the Exchange.

12. In which circumstances does settlement need not be done by a member?

The periodic settlement as per the above-mentioned rules (Point no.1) is not required to be done in the following cases:

- a) Clients settling trades through "custodians."
- b) Margin received in the form of Bank Guarantees and Fixed Deposit Receipts, which are created by clients.
- c) Clearing members who are clearing trades of custodial participants/trading members
- d) Cheques received by the Member from the clients and credited in the

respective client ledger but uncleared on settlement date.

- e) In the case of new clients, no settlement would be required in the month/quarter in which funds are received by the Member for the first time. However, members shall ensure that, if the client is having credit balance, and has not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by TM, within next three working days.

13.Can a member retain funds of clients towards obligations towards its sister companies?

While settling client accounts, a member cannot retain funds in excess of the balances mentioned in Point 5.

Accordingly, while ascertaining retention amount, a member cannot consider debit balances of the client which are arising in the books of sister concern / associate of the member registered in same/other exchanges / commodities broking.

14. Can the Member get the funds due for settlement invested in any other instrument after taking consent from the client?

No. All Members are advised to strictly comply with the abovementioned requirement relating to running account settlement and ensure strict adherence to the timelines prescribed therein. Further, members should ensure to credit the settlement amount to the client bank account directly and not run any schemes to invest the actual settlement amount with the consent/without consent of the client.

15.What is the applicable last transaction date, for returning the credit balance of clients who have not done any transaction in the 30 calendar days since the last transaction? -

For the clients having credit balance (on or after August 01, 2021), who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client by trading member, within next three working days irrespective of the date when the running account was previously settled.

Annexure 1

INDICATIVE FORMAT FOR RETENTION STATEMENT

(A) Total value of clients Funds available prior to settlement

| Particulars | Amount (Rs.) | Amount (Rs.) |
|---|--------------|--------------|
| Unencumbered balance in client ledger <i>(after reversing value of unsettled bills if any in case of trade day billing and margin amount if debited in client ledger)</i> | <u>XXXX</u> | |
| Unencumbered balance in margin ledgers | <u>XXXX</u> | |
| Total Funds available (a) | | <u>XXXX</u> |

(B) Value of securities pledged/ repledged and value of commodities

| Particulars | Amount (Rs.) |
|--|--------------|
| Value of securities (after applying appropriate haircut) accepted as collateral from the clients by way of 'margin pledge' | <u>XXXX</u> |
| Value of commodities (after applying appropriate haircut) | <u>XXXX</u> |
| Total value of securities pledged/ repledged and commodities (b) | <u>XXXX</u> |

(C) Explanation regarding Retention of Funds

| Particulars | CM Segment | FO Segment | CD Segment | Other Segments | Amount (Rs.) |
|--|------------|------------|------------|----------------|--------------|
| T Day Funds Pay in obligation (c) | XXXX | XXXX | XXXX | | XXXX |
| T-1 Day Funds Pay in obligation (d) | XXXX | N.A | N.A | | XXXX |
| 225% of T Day Margin Liability (e) | XXXX | XXXX | XXXX | | XXXX |
| 225% of T Day Margin Liability in all segments across Exchanges (after adjusting the value of securities accepted as collateral from the clients by way of 'margin pledge' and value of commodities) (f=e-b) | | | | | XXXX |
| Maximum Funds that can be retained (g=c+d+f) | XXXX | XXXX | XXXX | XXXX | XXXX |

(D) Retention of Funds

| | |
|--|-------------|
| Value of Funds received from client - retained | <u>XXXX</u> |
| Total Retention | <u>XXXX</u> |

(E) Details of Payout to client

| | |
|----------------------|-------------|
| Total Funds released | <u>XXXX</u> |
|----------------------|-------------|

(F) Amount not required to be returned

| | |
|--|-------------|
| Value of BG's received from client - not required to be returned (With details of each BG) | <u>XXXX</u> |
| Value of FD's received from client - not required to be returned (With details of each FD) | <u>XXXX</u> |